

**REPORT OF THE AUDIT OF THE
KNOX COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2001**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
KNOX COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2001

The Auditor of Public Accounts has completed the Knox County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances decreased by \$248,322 from the beginning of the year, resulting in a cash surplus of \$1,289,201 as of June 30, 2001. Revenues increased by \$2,899,574 from the prior year and disbursements increased by \$3,624,332.

Receivables:

Total receivables as of June 30, 2001, was \$142,637. The receivable will be collected during the next fiscal year.

Debt Obligations:

Total bonded debt principal as of June 30, 2001, was \$3,202,000. Future collections of \$4,518,258 are needed over the next 22 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$6,446 as of June 30, 2001. Future principal payments of \$6,446 are needed to meet the obligation. The county is not required to pay interest on this obligation.

Long-term participation principal agreements totaled \$387,316 as of June 30, 2001. Future collections of \$583,468 are needed over the next 14 years to pay all debt principal and interest.

Report Comments:

- The County Should Have A Written Agreement To Protect Deposits
- The County Treasurer Should Properly Maintain A Receipts Ledger For All County Funds
- All County Employees And Officials Should Receive The Same Medical Insurance Coverage
- Budget Amendments And Transfers Should Be Properly Recorded In Financial Statements
- The County Treasurer Should Properly Prepare Quarterly Financial Statements
- The County Treasurer and Finance Officer Should Properly Prepare An Appropriation Ledger For All County Funds
- The County Treasurer Should Prepare An Annual Settlement, And Make A Full And Complete Settlement With The Fiscal Court For The Preceding Fiscal Year
- Lacks Adequate Segregation Of Duties
- The County Should Have Complied With The Period Of Availability Of Federal Funds For The Brush Creek Water Line Extension Grant

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds. However, the depository institution did not have a written agreement with the county securing the county's interest in the collateral.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Raymond C. Smith, Knox County Judge/Executive

Honorable Gerald K. West, Former Knox County Judge/Executive

Members of the Knox County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Knox County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Knox County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Knox County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001, of Knox County, Kentucky, and the revenues received and expenditures paid for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Raymond C. Smith, Knox County Judge/Executive
Honorable Gerald K. West, Former Knox County Judge/Executive
Members of the Knox County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated March 1, 2004, on our consideration of Knox County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Knox County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The County Should Have A Written Agreement To Protect Deposits
- The County Treasurer Should Properly Maintain A Receipts Ledger For All County Funds
- All County Employees And Officials Should Receive The Same Medical Insurance Coverage
- Budget Amendments And Transfers Should Be Properly Recorded In Financial Statements
- The County Treasurer Should Properly Prepare Quarterly Financial Statements
- The County Treasurer and Finance Officer Should Properly Prepare An Appropriation Ledger For All County Funds
- The County Treasurer Should Prepare An Annual Settlement And Make A Full And Complete Settlement With The Fiscal Court For The Preceding Fiscal Year
- Lacks Adequate Segregation Of Duties
- The County Should Have Complied With The Period Of Availability Of Federal Funds For The Brush Creek Water Line Extension Grant

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 1, 2004

KNOX COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2001

Fiscal Court Members:

Gerald West	County Judge/Executive
Carson Gilbert	Magistrate
Willard Bargo	Magistrate
Bob MacMerrit	Magistrate
Larry Jones	Magistrate
Guilio Cima	Magistrate

Other Elected Officials:

David Jorjani	County Attorney
Preston Smith	Jailer
Mike Corey	County Clerk
Greg Helton	Circuit Court Clerk
Wilbur Bingham	Sheriff
Roger Deaton	Property Valuation Administrator
Jerry Garland	Coroner

Appointed Personnel:

Wanda F. Moore	County Treasurer and Occupational Tax Collector
Amy Lambert	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

KNOX COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:

Cash	\$	275,349	
------	----	---------	--

Road and Bridge Fund:

Cash		51,019	
------	--	--------	--

Jail Fund:

Cash		20,890	
------	--	--------	--

Local Government Economic Assistance Fund:

Cash	\$	81,605		
Due From General Fund (Note 9)		28,000	109,605	\$ 456,863

Special Revenue Fund Type

Timberland Tax Fund:

Cash	\$	37	
------	----	----	--

Manufacturing Services Fund:

Note Receivable (Note 4)		142,637	
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Kay Jay Recreation Fund:

Cash		4,838	
------	--	-------	--

911 Fund:

Cash		269,546	
------	--	---------	--

Harlan - Knox Joint E-911 Fund:

Cash		58,243	
------	--	--------	--

Solid Waste Fund:

Cash		5,329	
------	--	-------	--

Brush Creek Water Project Fund:

Cash		1	\$ 480,631
------	--	---	------------

Debt Service Fund Type

Knox County Public Properties Corporation Fund:

1991 Bond Issue (Note 6.B):

Debt Service Cash	\$	75,000	
Sinking Fund Cash		1,150	\$ 76,150

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND FUND BALANCES ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Assets and Other Resources (Continued)

Assets (Continued)

Debt Service Fund Type (Continued)

Knox County Public Properties Corporation Fund:
 (Continued)

1997 Bond Issue (Note 6.C):

Debt Service Cash	\$	242,853		
Sinking Fund Cash		203,358		
Costs of Issuance Cash		<u>38</u>	<u>446,249</u>	\$ 522,399

Other Resources

General Fund Type

Road and Bridge Fund:

Amounts to be Provided in Future Years for Road Garage Lease Principal (Note 8.B)	\$	6,446
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Jail Fund:

Amounts to be Provided for Future Years For Jail Participation Agreement - Bond Principal (Note 7)		387,316
--	--	---------

Debt Service Fund Type

Public Properties Corporation Fund:

1981 Bond Issue (Note 6.A):

Amounts to be Provided in Future Years for Bond Principal	\$	477,000
--	----	---------

1991 Bond Issue (Note 6.B):

Amounts to be Provided in Future Years for Bond Principal		158,850
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1997 Bond Issue (Note 6.C):

Amounts to be Provided in Future Years for Bond Principal	<u>2,043,751</u>	<u>2,679,601</u>
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Total Assets and Other Resources		<u>\$ 4,533,256</u>
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The accompanying notes are an integral part of the financial statements.

KNOX COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND FUND BALANCES ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Liabilities and Fund Balances

Liabilities

General Fund Type

General Fund:

Due to LGEA Fund (Note 9)		\$	28,000
---------------------------	--	----	--------

Road and Bridge Fund:

Road Garage Lease Principal (Note 8.B)	\$	6,446	
--	----	-------	--

Jail Fund:

Jail Participation Agreement - Bond Principal Payments (Note 7)		<u>387,316</u>	\$ 393,762
--	--	----------------	------------

Debt Service Fund Type

Public Properties Corporation Fund:

1981 Bond Issue:

Bond Principal Not Matured (Note 6.A)	\$	477,000	
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1991 Bond Issue:

Bond Principal Not Matured (Note 6.B)		235,000	
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1997 Bond Issue:

Bond Principal Not Matured (Note 6.C)		<u>2,490,000</u>	\$ 3,202,000
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Fund Balances

Reserved:

Special Revenue Fund Type:

Timberland Tax Fund	\$	37	
Manufacturing Services Fund		142,637	
Kay Jay Recreation Fund		4,838	
911 Fund		269,546	
Harlan - Knox Joint E-911 Fund		58,243	
Solid Waste Fund		5,329	
Brush Creek Water Project Fund		<u>1</u>	\$ 480,631

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS
June 30, 2001
(Continued)

Liabilities and Fund Balances (Continued)

Fund Balances (Continued)

Unreserved:

General Fund Type

General Fund	\$	275,349	
Road and Bridge Fund		51,019	
Jail Fund		20,890	
Local Government Economic Assistance Fund		<u>81,605</u>	<u>\$ 428,863</u>
Total Liabilities and Fund Balances			<u><u>\$ 4,533,256</u></u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

KNOX COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2001

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 7,671,381	\$ 5,119,843	\$ 1,254,472	\$ 111,777
Other Financing Sources:				
Transfers In	2,496,070	116,019	1,859,328	410,000
Borrowed Money	85,922		85,922	
AOC Bond Receipts	186,300			
Hospital Bond Receipts	67,950			
Total Cash Receipts	<u>\$ 10,507,623</u>	<u>\$ 5,235,862</u>	<u>\$ 3,199,722</u>	<u>\$ 521,777</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 7,658,579	\$ 3,044,789	\$ 2,836,139	\$ 495,390
Other Financing Uses:				
Transfers Out	2,496,070	2,201,310	191,022	
Bonds:				
Principal Paid	182,000			
Interest Paid	172,068			
Trustee Fees	398			
Borrowed Money Repaid	127,760		127,760	
Kentucky Area Development District - Principal Paid	100,000		100,000	
Jail Participation Agreement:				
Principal Paid	16,921			16,921
Kentucky State Treasurer- County Garage Lease Principal Paid	2,149		2,149	
Total Cash Disbursements	<u>\$ 10,755,945</u>	<u>\$ 5,246,099</u>	<u>\$ 3,257,070</u>	<u>\$ 512,311</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (248,322)	\$ (10,237)	\$ (57,348)	\$ 9,466
Cash Balance - July 1, 2000	<u>1,537,523</u>	<u>285,532</u>	<u>108,368</u>	<u>11,423</u>
Cash Balance - June 30, 2001	<u>\$ 1,289,201</u>	<u>\$ 275,295</u>	<u>\$ 51,020</u>	<u>\$ 20,889</u>

The accompanying notes are an integral part of the financial statements.

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KNOX COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2001
(Continued)

	Special Revenue Fund Type		
	Solid Waste Fund	Middle Richland Fund	Community Development Block Grant Fund
<u>Cash Receipts</u>			
Schedule of Operating Revenue	\$ 9,690	\$ 8	\$
Other Financing Sources:			
Transfers In			
Borrowed Money			
AOC Bond Receipts			
Hospital Bond Receipts			
Total Cash Receipts	<u>\$ 9,690</u>	<u>\$ 8</u>	<u>\$ 0</u>
<u>Cash Disbursements</u>			
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 7,727	\$	\$
Other Financing Uses:			
Transfers Out		1,824	936
Bonds:			
Principal Paid			
Interest Paid			
Trustee Fees			
Borrowed Money Repaid			
Kentucky Area Development District -			
Principal Paid			
Jail Participation Agreement:			
Principal Paid			
Kentucky State Treasurer-			
County Garage Lease Principal Paid			
Total Cash Disbursements	<u>\$ 7,727</u>	<u>\$ 1,824</u>	<u>\$ 936</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 1,963	\$ (1,816)	\$ (936)
Cash Balance - July 1, 2000	<u>3,366</u>	<u>1,816</u>	<u>936</u>
Cash Balance - June 30, 2001	<u><u>\$ 5,329</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2001
(Continued)

Special Revenue Fund Type			Debt Service Fund Type		
JAIBG Grant Fund	Brush Creek Water Project Fund	Harlan-Knox County Joint 911 Fund	Knox County Public Properties Corporation Fund - 1981 Bond Issue	Knox County Public Properties Corporation Fund - 1991 Bond Issue	Knox County Public Properties Corporation Fund - 1997 Bond Issue
\$ 8,840	\$ 502,609	\$ 58,243	\$	\$ 4,277	\$ 26,366
	13,391			91,022	
			67,950		186,300
<u>\$ 8,840</u>	<u>\$ 516,000</u>	<u>\$ 58,243</u>	<u>\$ 67,950</u>	<u>\$ 95,299</u>	<u>\$ 212,666</u>
\$ 6,750	\$ 516,000	\$	\$	\$	\$
4,236					
			42,000	75,000	65,000
			25,950	20,438	125,680
				398	
<u>\$ 10,986</u>	<u>\$ 516,000</u>	<u>\$ 0</u>	<u>\$ 67,950</u>	<u>\$ 95,836</u>	<u>\$ 190,680</u>
\$ (2,146)	\$	\$ 58,243	\$	\$ (537)	\$ 21,986
2,146				76,687	424,263
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 58,243</u>	<u>\$ 0</u>	<u>\$ 76,150</u>	<u>\$ 446,249</u>

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Knox County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Knox County Public Properties Corporation as part of the reporting entity.

Knox County Public Properties Corporation

The Knox County Public Properties Corporation (the corporation) is a legally separate entity established to provide long-term debt service for the fiscal court. The corporation's governing body consists entirely of fiscal court members. Therefore management must include the corporation as a component unit, and the corporation's financial activity has been blended with that of the fiscal court.

Additional - Knox County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Knox County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Knox County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Knox County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Timberland Tax Fund, Courthouse Non-Voted Fund, Manufacturing Services Fund, Kay Jay Fund, 911 Fund, Harlan-Knox County Joint E-911 Fund, Solid Waste Fund, Middle Richland Fund, Community Development Block Grant Fund, JAIBG Grant Fund, and the Brush Creek Water Project Fund of the Fiscal Court are reported as Special Revenue Fund Types.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Knox County Public Properties Corporation Fund - 1981 Bond Issue, 1991 Bond Issue, and 1997 Bond Issue. Debt service is provided through annual payments made directly by the Knox County Hospital Operating Board for the 1981 Bond Issue. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year for the 1991 bond issue. Debt service is provided through annual payments made directly by the Administrative Office of the Courts for the 1997 Bond Issue.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations, and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore, the value of the county's fixed assets is not included in the financial statements. The fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Knox County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget (Continued)

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Knox County Public Properties Corporation Fund 1981 Bond Issue, 1991 Bond Issue, and the 1997 Bond Issue (Debt Service Fund Type). Bond indentures and other relevant contractual provisions require specific payments to and from the bond issues annually. Transfers are budgeted in the General Fund Type for the 1991 Bond Issue. The payments for the 1981 Bond Issue are made directly by the Knox County Hospital Operating Corporation. The payments for the 1997 Bond Issue are made directly by the Administrative Office of the Courts. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Knox County Ambulance Service and the Knox County Utility Commission are considered related organizations of Knox County Fiscal Court.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent.

KNOX COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the county securing the county's interest in the collateral.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county official as of June 30, 2001.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county's name	\$ 6,803
FDIC insured	<u>100,000</u>
Total	<u><u>\$ 106,803</u></u>

Note 4. Receivable

On January 29, 1986, the county entered into an agreement with Manufacturing Service Corporation to loan the corporation a \$750,000 Community Development Block Grant. The loan was to be used to purchase equipment for a new manufacturing plant. Terms of the agreement stipulated monthly payments of \$6,329 over a 15-year period. On August 8, 1996, the fiscal court agreed to forgive the balance of the loan, \$713,187 over a five-year period provided 212 jobs are maintained with an increase of an additional 25 employees within 12 months from the date of forgiveness. Manufacturing Service Corporation has complied with terms of this agreement and the fiscal court has forgiven a proportional amount of the loan each year. As of June 30, 2001, the principal balance due was \$142,637. Future amounts due to the county are as follows:

June 30, 2001	\$142,637
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KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 5. Short-Term Debt

On April 10, 1997, the Knox County Fiscal Court borrowed \$96,727 from Union National Bank to purchase a 1996 road grader. The money was borrowed at a 5.45% interest rate to be repaid over a period of five years. The loan agreement requires semi-annual payments of \$11,182. The loan was paid off during FYE June 30, 2001.

Note 6. Long-Term Debt

A. Knox County Municipal Public Properties Corporation - Revenue Bonds Series 1981

In October 1981, the Knox County Public Properties Corporation obtained various permanent financing of various construction loans from the Farmers Home Administration (FmHA), an agency of the United States Department of Agriculture, through the issuance of First Mortgage Bonds in the amount of \$1,000,000. The Knox County Hospital Operating Corporation leases all hospital property and equipment from the Municipal Properties Corporation for an annual rental equal to the amounts required under the Mortgage Deed of Trust. Annual rentals approximate amounts due for principal and interest on the bonds.

Under the terms of the Mortgage Deed of Trust, FmHA purchased the entire bond issue at a five percent (5%) interest rate, payable each January 1, and July 1 beginning July 1, 1982. The entire principal is due on January 1, 2010. The bonds are secured by a mortgage lien against all land, buildings and equipment of the Hospital including all rents and profits derived from such properties from such properties.

On September 21, 1987, the Farmers Home Administration (FmHA), notified the Hospital that the Omnibus Budget Reconciliation Act of 1986 required FmHA to sell a portion of its loan portfolio. In September 1987, the Hospital's FmHA loan was sold to GMAC Commercial Mortgage, but the Hospital's obligations and covenants made under the original loan agreement and debt instrument remained unaffected by this sale.

The principal balance outstanding at June 30, 2001, was \$477,000. The County currently is not in compliance with the terms of the agreement. The debt service requirements are presented as follows:

<u>Due Date</u>	<u>Interest Rate</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
FY 02	5%	\$ 23,850	\$
FY 03	5%	23,850	
FY 04	5%	23,850	
FY 05	5%	23,850	
FY 06	5%	23,850	
FY 07 - FY 10	5%	<u>85,463</u>	<u>477,000</u>
Total		<u>\$ 204,713</u>	<u>\$ 477,000</u>

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 6. Long-Term Debt (Continued)

B. Knox County Municipal Public Properties Corporation - Revenue Bonds Series 1991

The county is liable for \$235,000 of outstanding bonds issued on August 1, 1991, at various interest rates by the Knox County Municipal Public Properties Corporation. Principal payments are due each year on August 1, in the amounts indicated below. Interest is due on the bonds each February 1 and August 1, beginning February 1, 1992. Future debt service requirements are:

<u>Due Date</u>	<u>Interest Rate</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2002	7.50	\$ 14,626	\$ 80,000
2003	7.50	11,626	155,000
		<u>\$ 26,252</u>	<u>\$ 235,000</u>

C. Knox County Municipal Properties Corporation - Revenue Bonds Series 1997

On September 5, 1996, the Knox County Kentucky Public Properties Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of constructing the Justice Center, which is attached to the courthouse and obtaining office rental space for the AOC at the Justice Center. Subsequently, on December 17, 1997, the Knox County Justice Center Corporation issued First Mortgage Revenue Bonds in order to construct the Knox County Justice Center.

The Knox County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are acting as agents for the AOC in order to plan, design, construct, manage and maintain the Justice Center. The Knox County Kentucky Public Properties Corporation and the Kentucky Area Development Districts Financing Trust expect annual rentals from the AOC for use of the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under terms of the lease, the AOC has agreed to pay directly to the paying agent bank, the use allowances payments as provided in the lease. The lease agreement is renewable each year. The Knox County Kentucky Public Properties Corporation and the Kentucky Area Development Districts Financing Trust are in reliance upon the use allowance payment in order to meet the debt service for the bonds.

The use allowance payment commences with occupancy of the Justice Center by the AOC. The AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until September 1, 2022, but the lease does not legally obligate the AOC to do so.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 6. Long-Term Debt (Continued)

C. Knox County Municipal Properties Corporation - Revenue Bonds Series 1997 (Continued)

The debt service requirements for the First Mortgage Revenue Bonds are presented as follows:

<u>Due Date</u>	<u>Interest Rate</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
FY 02	4.25	\$ 122,831	\$ 65,000
FY 03	4.35	120,036	65,000
FY 04	4.35	117,209	65,000
FY 05	4.40	114,145	75,000
FY 06	4.50	110,808	75,000
FY 07 - FY 11	Various	494,605	455,000
FY 12 - FY 16	Various	367,153	575,000
FY 17 - FY 21	Various	196,430	755,000
FY 22 - FY 23	5.20	18,980	360,000
Total		<u>\$ 1,662,197</u>	<u>\$ 2,490,000</u>

Note 7. Long-Term Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$1,378,870 of revenue bonds at various interest rates, of which the county has agreed to pay \$551,095 principal and a proportional share of interest on the issue. Revenue bonds outstanding as of June 30, 2001, totaled \$387,316. Principal payments are due each year on October 1 in the amounts indicated below. Interest payments are due each year on October 1 and April 1. Remaining debt service requirements are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2002	\$ 23,988	\$ 17,994
2003	22,812	19,135
2004	21,560	20,348
2005	20,229	21,639
2006	18,813	23,010
2006 to 2010	69,483	138,880
2010 to 2015	19,267	146,310
	<u>\$ 196,152</u>	<u>\$ 387,316</u>

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 8. Capital Lease-Purchase Agreements

A. Kentucky Area Development District Financing Trust - Road Improvements

On January 8, 1998, the county entered into a lease-purchase agreement with the Kentucky Area Development District Financing Trust for the purpose of road improvements. Terms of the lease agreement stipulate a three-year repayment schedule with interest payments due each year on May 20 and November 20. This lease was paid in full and the liability as of June 30, 2001, is \$0.

B. Commonwealth of Kentucky - Road Garage Lease

On February 27, 1985, the county entered into a lease-purchase agreement with the Commonwealth of Kentucky for the purpose of obtaining a road garage. Terms of the agreement stipulate a twenty-year repayment schedule with an annual principal payment of \$2,149. The county may purchase the road garage at any time for a specified price of \$42,975 less the total of any prior payments. Principal payments are due each year on March 1, in the amount indicated below. Remaining debt service requirements are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Amount</u>
2002	\$ 2,149	\$
2003	2,149	
2004	<u>2,148</u>	<u></u>
Totals	<u>\$ 6,446</u>	<u>\$ 0</u>

Note 9. Interfund Transfers

\$28,000 was transferred from the Local Government Economic Assistance (LGEA) Fund to the General Fund during a prior fiscal year. The monies were not transferred back to the LGEA Fund; therefore, the General Fund owes the LGEA Fund \$28,000.

Note 10. Lease-Purchase Agreement

The county entered into a lease-purchase agreement with CASE Credit Corporation on September 22, 1998, for a tractor & mower. The scheduled payoff date is September 22, 2003. However, the county paid off the lease during FY 01 and the principal balance as of June 30, 2001 is \$0.

Note 11. Related Party Transactions

The county rented office space from Magistrate Bob "Mac" Merritt's brother. During fiscal year ending June 30, 2001, payments for office rental totaled \$2,200.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 12. Commitments and Contingencies

The Knox County Hospital Operating Board issued \$11,540,000 of bonds on January 18, 2001, for the construction of a new hospital. The Knox County Fiscal Court is not responsible for this debt. The hospital then borrowed \$495,000 from the bank for construction work on the hospital, which the county was contingently responsible for. The hospital operating board then issued an additional \$1,115,000 of bonds on May 31, 2001 (part of the proceeds were used to pay off the \$495,000 note) and \$3,600,000 of bonds on February 12, 2002 (subsequent to our audit period), for the completion of construction on the new Knox County Hospital (total of the two bond issues was \$4,715,000). The County could be contingently responsible for this debt.

Note 13. Subsequent Events

Knox County Jail

The Knox County Judge/Executive was informed by the Department of Corrections that the Knox County Jail was being closed on September 30, 2002, due to it being unsafe to house inmates. The Knox County Fiscal Court declared a State of Emergency in order for the County Judge/Executive to take necessary action to get the jail in compliance with the Department of Corrections guidelines. The Department of Corrections allowed the Knox County Jail to reopen on November 27, 2002, after passing a follow-up inspection. The fiscal court then closed the jail on June 2, 2003, for public safety issues. There is pending litigation related to the closing of the jail between the fiscal court, jailer, and the sheriff.

Note 14. Insurance

For the fiscal year ended June 30, 2000, Knox County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 15. Jail Canteen Fund

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations.

The Knox County Jail Canteen account had a beginning balance of \$14,726, receipts of \$3,606, and expenditures of \$1,327. This leaves an ending balance of \$17,005 as of June 30, 2001.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

KNOX COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 8,305,188	\$ 5,119,843	\$ (3,185,345)
Road and Bridge Fund	1,257,803	1,254,472	(3,331)
Jail Fund	110,746	111,777	1,031
Local Government Economic Assistance Fund	1,314,703	377,164	(937,539)
<u>Special Revenue Fund Type</u>			
Timberland Tax Fund	100	1,551	1,451
Courthouse Non-Voted Fund	116	46	(70)
Manufacturing Services Fund	212	179	(33)
Kay Jay Recreation Fund	20	92	72
911 Fund	188,172	196,224	8,052
Solid Waste Fund	113,520	9,690	(103,830)
Middle Richland Fund	35	8	(27)
CDBG Fund	20		(20)
JAIBG Fund	8,840	8,840	
Brush Creek Water Project	1,000,000	502,609	(497,391)
Harlan-Knox County Joint 911 Fund		58,243	58,243
Totals	<u>\$ 12,299,475</u>	<u>\$ 7,640,738</u>	<u>\$ (4,658,737)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 12,299,475
Add: Budgeted Prior Year Surplus			731,486
Less: Other Financing Uses			<u>(337,852)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 12,693,109</u>

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SCHEDULE OF OPERATING REVENUE

KNOX COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2001

Revenue Categories	GOVERNMENTAL FUND TYPES			
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type
Taxes	\$ 2,963,912	\$ 2,787,967	\$ 175,945	\$
In Lieu Tax Payments	10	10		
Excess Fees	25,294	25,294		
Licenses and Permits	301	301		
Intergovernmental Revenues	4,480,825	3,903,324	577,501	
Charges for Services	1,371	1,371		
Miscellaneous Revenues	119,112	117,886	1,226	
Interest Earned	80,556	27,103	22,810	30,643
Total Operating Revenue	<u>\$ 7,671,381</u>	<u>\$ 6,863,256</u>	<u>\$ 777,482</u>	<u>\$ 30,643</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

KNOX COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,400,766	\$ 1,320,514	\$ 80,252
Protection to Persons and Property	737,040	683,575	53,465
General Health and Sanitation	378,255	152,133	226,122
Social Services	16,700	16,700	
Roads	2,717,127	2,700,096	17,031
Other Transportation Facilities and Services	466,958	386,338	80,620
Debt Service	69,931	67,829	2,102
Administration	5,169,629	1,487,182	3,682,447
Total Operating Budget - General Fund Type	\$ 10,956,406	\$ 6,814,367	\$ 4,142,039
Other Financing Uses:			
Transfers to Knox County Public Properties Corporation Fund-			
Principal	75,000	75,000	
Interest	16,022	16,022	
Borrowed Money-			
Notes Payable - Principal	127,760	127,760	
Kentucky Area Development District -			
Financing Trust - Road Improvements	100,000	100,000	
Garage Lease	2,149	2,149	
Jail Participation Agreement -			
Principal	16,921	16,921	
TOTAL BUDGET - GENERAL FUND TYPE	\$ 11,294,258	\$ 7,152,219	\$ 4,142,039

KNOX COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2001
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 15,249	\$ 20	\$ 15,229
Protection to Persons and Property	573,612	311,793	261,819
General Health and Sanitation	1,120,020	523,727	596,293
Social Services	10,986	6,750	4,236
Recreation and Culture	6,800	1,922	4,878
Administration	10,036		10,036
TOTAL OPERATING BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 1,736,703</u>	<u>\$ 844,212</u>	<u>\$ 892,491</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Raymond C. Smith, Knox County Judge/Executive
The Honorable Gerald West, Former Knox County Judge/Executive
Members of the Knox County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Knox County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated March 1, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Knox County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

- **Reference Number 2001-1:** The County Should Have A Written Agreement To Protect Deposits
- **Reference Number 2001-2:** The County Treasurer Should Properly Maintain A Receipts Ledger For All County Funds
- **Reference Number 2001-3:** All County Employees And Officials Should Receive The Same Medical Insurance Coverage
- **Reference Number 2001-4:** Budget Amendments And Transfers Should Be Properly Recorded In Financial Statements
- **Reference Number 2001-5:** The County Treasurer Should Properly Prepare Quarterly Financial Statements
- **Reference Number 2001-6:** The County Treasurer and Finance Officer Should Properly Prepare An Appropriation Ledger For All County Funds



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance (Continued)

- **Reference Number 2001-7:** The County Treasurer Should Prepare An Annual Settlement, And Make A Full And Complete Settlement With The Fiscal Court For The Preceding Fiscal Year

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Knox County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Knox County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs.

- **Reference Number 2001-8:** Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 1, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Raymond C. Smith, Knox County Judge/Executive
The Honorable Gerald K. West, Former Knox County Judge/Executive
Members of the Knox County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Knox County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. Knox County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Knox County's management. Our responsibility is to express an opinion on Knox County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Knox County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Knox County's compliance with those requirements.

As described in Reference Number: 2001-9 in the accompanying schedule of findings and questioned costs - The County Should Have Complied With The Availability Terms Of The Brush Creek Water Line Extension Grant. Knox County did not comply with requirements regarding Period of Availability that are applicable to its grant received from the U.S. Department of Housing and Urban Development and passed through the State Department of Local Government. Compliance with such requirements is necessary, in our opinion, for Knox County to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Knox County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Knox County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Knox County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Knox County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs.

- **Reference Number: 2001-9:** The County Should Have Complied With The Period Of Availability Of Federal Funds For The Brush Creek Water Line Extension Grant

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 1, 2004

FINDINGS AND QUESTIONED COSTS

KNOX COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2001

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Knox County.
2. One reportable condition disclosed during the audit of the financial statements is reported in the Independent Auditor's Report. This condition is reported as a material weakness.
3. Seven instances of noncompliance material to the financial statements of Knox County were disclosed during the audit.
4. One reportable condition relating to the audit of the major federal awards programs is reported in the Independent Auditor's Report. That condition is reported as a material weakness.
5. The auditor's report on compliance for the audit of the major federal awards programs for Knox County expresses a qualified opinion.
6. Audit findings relative to the major federal awards programs for Knox County are reported in Part C of this schedule.
7. The program tested as major program was: Community Development Block Grant - Brush Creek Water Line Extension Project, CFDA # 14.228
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Knox County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

NONCOMPLIANCES:

Reference Number 2001-1:

The County Should Have A Written Agreement To Protect Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of June 30, 2001, the county had bank deposits of \$106,803; FDIC insurance of \$100,000; and collateral pledged or provided of \$252,676. Even though the county obtained sufficient collateral of \$252,676, there was no written agreement between the county and the depository institution, signed by both parties, securing the county's interest in the collateral. We recommend the county enter into a written agreement with the depository institution to secure the county's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, (c) an official record of the depository institution.

Former County Judge/Executive Gerald West's Response:

The agreement is currently in effect.

KNOX COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2001
(Continued)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

NONCOMPLIANCES: (Continued)

Reference Number 2001-2:

The County Treasurer Should Properly Maintain A Receipts Ledger For All County Funds

The County Treasurer did not properly maintain a receipts ledger for all county funds. She only maintained a receipts ledger for the General Fund, Road and Bridge Fund, and the Jail Fund. She did not maintain one for any of the other funds of the county. She did maintain reconciliation reports, which showed receipts and disbursements of the funds. However, they were not in the format and did not contain the information required by the "Uniform System of Accounts" stipulated by the Department for Local Government. The receipts ledgers that were maintained for the General Fund, Road and Bridge Fund, and the Jail Fund were not properly maintained, as well. Auditors were unable to trace all receipt categories in the fourth quarter financial report back to the receipts ledger. The postings in the receipts ledger were incomplete and/or incorrect. The receipts in the financial report had to be traced back to the receipts journal and the general ledger accounts maintained by the county treasurer. The "Uniform System of Accounts" required by the Department for Local Government requires: "CASH RECEIPTS LEDGER - a monthly compilation by fund and account code of receipts recorded in the cash receipts journal. Each item will have a separate page in the cash receipts ledger. Each ledger page will identify the name of the revenue account; the account code and the amount budgeted. A monthly total is posted and a cumulative total is maintained. At the end of each quarter, the year-to-date figure is carried directly to the treasurer's portion of the quarterly financial statement." We recommend that the County Treasurer comply with the "Uniform System of Accounts" by properly maintaining a receipts ledger for all county funds.

Former County Judge/Executive Gerald West's Response:

Computer system was not setup for these appropriations and receipts. A new system is now installed to make all postings.

Reference Number 2001-3:

All County Employees And Officials Should Receive The Same Medical Insurance Coverage

The county is paying for family medical insurance coverage on certain individuals. Single medical coverage is paid on the majority of county personnel. We recommend the fiscal court review this disparity and assure the county personnel policy reflects the results of the review.

Former County Judge/Executive Gerald West's Response:

Agree with and aware of the issue.

KNOX COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2001
(Continued)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

NONCOMPLIANCES: (Continued)

Reference Number 2001-4:

Budget Amendments And Transfers Should Be Properly Recorded In Financial Statements

We found budget amendments and transfers not posted or improperly posted in the financial records and thereby, incorrectly reported on the quarterly financial statement. This condition allowed inaccurate financial reports to be prepared, used by the fiscal court, and filed with the Department for Local Government. Appropriation line items had incorrect totals allowing several to be overspent, when funds were available to be transferred. We recommend budget amendments and transfers be properly posted, reconciled, and reported on in the financial records and quarterly reports. We recommend the county treasurer follow the Uniform System of Accounts, established under the authority of KRS 68.210, which established guidelines for posting and recording budget amendments and transfers.

Former County Judge/Executive Gerald West's Response:

Posting and budgeting transfers are presently posted correctly.

Reference Number 2001-5:

The County Treasurer Should Properly Prepare Quarterly Financial Statements

We found numerous errors on the 4th Quarter Financial Report. Receipts and expenditures were posted to incorrect receipt and expenditure accounts. We also found several instances where cash transfers out of one fund were posted as receipts in another fund. This resulted in operating receipts being overstated on the financial statements. We had to make numerous adjustments to the County's 4th Quarter Financial Statement in order for the financial statements to be materially correct when reported in the audit report. We recommend that the 4th Quarter Financial Statement be properly prepared in the future in order for the financial statements to be properly stated.

Former County Judge/Executive Gerald West's Response:

Posting and transfers are presently reported correctly.

KNOX COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2001
(Continued)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

NONCOMPLIANCES: (Continued)

Reference Number 2001-6:

The County Treasurer and Finance Officer Should Properly Prepare An Appropriation Ledger For All County Funds

The County Treasurer and the County Finance Officer did not prepare an Appropriations Ledger for the Local Government Economic Development Fund, Manufacturer Services Fund, Kay Jay Recreation Fund, Timberland Tax Fund, 911 Fund, Solid Waste Fund, Community Development Block Grant Fund, and JAIBG Fund.

The County Treasurer did prepare an Appropriations Ledger for the General Fund, Road & Bridge Fund and the Jail Fund. However, the ledger sheets did not contain a running total of expenditures or a running total of the free balance of the budget appropriations. The Uniform System of Accounts, as established by the Department for Local Government (DLG) requires the county to maintain "APPROPRIATION LEDGER(S) - the ledger reflects, by account number, the original budget appropriation, the payee, increase/decreases by amendment or transfer, expenditures, and remaining balance. A page for each budgeted line item must be maintained in the ledger. The appropriation expenditure ledgers are to be maintained independently by the office of the county judge/executive and the county treasurer. Reconciliations should be made at least monthly in order to insure accuracy. Counties utilizing computers to maintain books of accounts in the treasurer's office must maintain an appropriation expenditure ledger within the office of the county judge/executive independently from the computer system in the treasurer's office. We recommend that the county treasurer fully comply with the Uniform System of Accounts, by properly maintaining an Appropriation Ledger.

Former County Judge/Executive Gerald West's Response:

A new computer system is now installed to correct these problems.

KNOX COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For The Fiscal Year Ended June 30, 2001
 (Continued)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

NONCOMPLIANCES: (Continued)

Reference Number 2001-7:

The County Treasurer Should Prepare An Annual Settlement And Make A Full And Complete Settlement With The Fiscal Court For The Preceding Fiscal Year

The County Treasurer did not prepare an annual settlement and did not make a full and complete settlement with the fiscal court for Fiscal Year Ending June 30, 2000. KRS 424.220 “requires public officers who receive or disburse public funds to prepare an itemized, sworn statement of all funds collected, received, held, or disbursed during the fiscal year.” The financial statement is required to show:

- “the total amount collected and received from each individual source”,
- “the total amount of funds disbursed to each individual payee and the purpose for which expended. The amount of salaries paid to all nonelected county employees shall be shown as lump sum expenditures by category such as road department, jails, solid waste, public safety, and administrative personnel.”

The financial statement must also have attached:

- “a certificate from the cashier or other proper officer from the banks in which the funds are or have been deposited during the past year, showing the balance, if any, of funds to the credit of the officer making the statement.”
- “a factual list of individual salaries is required to be prepared and available for public scrutiny and furnished by mail to the newspaper which may publish the list as a news item.”

KRS 68.020 requires the County Treasurer to make full and complete settlement with the fiscal court within 30 days of the close of the preceding year. All statements, vouchers, and other paper relating to the annual settlement must be filed in the office of the county clerk. We recommend that the County Treasurer comply with KRS 424.220 and KRS 68.020 by preparing an annual settlement and making full and complete settlement with the fiscal court within 30 days of the close of the preceding fiscal year, in the future.

Former County Judge/Executive Gerald West’s Response:

Annual Settlements are prepared under a more advanced computer system.

KNOX COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For The Fiscal Year Ended June 30, 2001
 (Continued)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

NONCOMPLIANCES: (Continued)

REPORTABLE CONDITION

Reference Number 2001-8:

Lacks Adequate Segregation Of Duties

The Knox County Fiscal Court has a weakness in their internal controls due to a lack of segregation of duties. We recommend that a qualified office employee independent of check writing and posting duties match purchase orders to checks and invoices. Also, we recommend that the person opening the mail keep a listing of all checks received for that day, detailing the date received, the check amount, who it is from, and what the check is for. This will help segregate the duties of the Treasurer and may reduce audit costs in the future. Initialing the purchase orders and invoices, by this person, and making sure the invoices are marked paid can be shown as evidence of these segregation of duties. To have better internal controls, it is a best practice to keep the receipt of cash, the disbursements of cash, and the posting of cash to the ledgers delegated to separate individuals.

Former County Judge/Executive Gerald West's Response:

Internal controls are followed as closely as possible.

PRIOR YEAR FINDINGS FINANCIAL STATEMENTS AUDIT

- Budget Amendments And Transfers Should Be Properly Recorded In Financial Statements
- The County Treasurer Should Properly Prepare Quarterly Financial Statements
- The County Should Have A Written Agreement To Protect Deposits
- The County Treasurer Should Properly Maintain A Receipts Ledger For All County Funds
- The County Treasurer And Finance Officer Should Properly Prepare An Appropriation Ledger For All County Funds
- All County Employees And Officials Should Receive The Same Medical Insurance Coverage
- The County Treasurer Should Prepare An Annual Settlement And Make A Full And Complete Settlement With The Fiscal Court For The Preceding Fiscal Year
- Lacks Adequate Segregation Of Duties

KNOX COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2001
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

Reference Number 2001-9:

The County Should Have Complied With The Period Of Availability Of Federal Funds For The
Brush Creek Water Line Extension Grant

The original grant agreement for the Brush Creek Water Line Extension Grant Project (Project) stated that the grant period would be January 1997 through April 1999. However, the Project was not started until after the required completion date of April 1999, and was not completed until June 13, 2002. The grant agreement states that federal awards may specify a time period during which the non-federal entity may use the federal funds. Where a funding period is specified, a non-federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the federal awarding agency. The county submitted and was reimbursed all costs associated with the project.

We have been informed by the pass-through agent, Kentucky Department for Local Government, that they are aware of the untimeliness of the grant's progress but that as the oversight agency for the Community Development Block Grant, they make all determinations as to grant periods, extensions, and acceptable progress. We recommend that Knox County monitor future grant projects for timely completion as required by the federal grant agreement.

Former County Judge/Executive Gerald West's Response:

Project has been completed.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

KNOX COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2001

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through State Department for Local Government:		
Community Development Block Grants- Brush Creek Water Line Extension Project (CFDA #14.228)	B-96-DC-21-0001(010)	\$ 502,609
<u>U.S. Department of Justice</u>		
Passed-Through State Justice Cabinet:		
JAIBG Program (CFDA #16.523)	98-JB-VX-0021(205)	6,750
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.503)	Not Available	1,923
<u>U.S. Environmental Protection Agency</u>		
Passed-Through State Natural Resources and Environmental Protection Cabinet-		
Stinking Creek Watershed Nonpoint Source Water Pollution Prevention Education and Demonstration Program (CFDA #66.460)	C9994861-99	<u>1,044</u>
Total Cash Expenditures of Federal Awards		<u>\$ 512,326</u>

KNOX COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2001

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Knox County, Kentucky and is presented on the modified cash basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local, Governments, and Non-Profit Organizations.

Note 2 - As required by this grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

KNOX COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2001

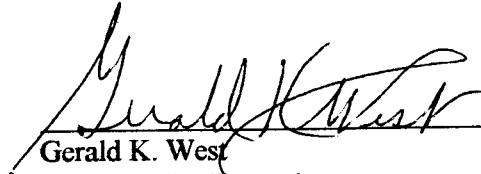
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS


KNOX COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Knox County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Gerald K. West
County Judge/Executive



Wanda Moore
County Treasurer

